

COMMERCIAL UPDATE - SAKHALIN REGION, (Russian Far East), March 2004

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Administrative

** Khristenko and Gref split responsibilities on natural monopolies and PSA.*

By April 20, Russia plans to approve the policies on all Ministries, Departments and Agencies. The Ministry for Industry and Energy, headed by the Chairman of the State PSA Committee Viktor Khristenko, will have functions to sign PSAs. As German Gref reported, his Ministry will still manage the financial side and the Ministry for Industry & Energy will be authorized to conclude PSA's. Gref's Ministry will be in charge of natural monopolies issues. (*Source – RusEnergy, March 25, 2004*)

** Sakhalin region Administration and EBRD sign the memorandum on cooperation.*

Memorandum of Understanding was signed on March 26. The parties agreed to cooperate for the sustainable development of the region. The Memorandum notes the problems arising from natural resources exploration. It is proposed to take into account the environmental consequences of the oil and gas projects, to find ways to improve social benefits available from investment for the population, and to help diversify local economy development together with the development of small businesses. The parties plan to cooperate with the interested investors, local companies, export and credit agencies, other international financial organizations, sponsors, non-governmental organizations and public groups.

It was also stated that EBRD is planning to provide several loans for investment projects in Sakhalin region.

(Source – TIA Ostrova Information Agency, March 26, 2004)

BISNIS note – information on the EBRD Sakhalin/Sakhalin Municipal Services Development Programme procurement can be found at:

<http://www.ebrd.com/oppor/procure/opps/goods/general/index.htm>

Oil and Gas

** Sakhalin Governor reports on the international LNG conference. (By www.rfeoilgas.com)*

The XIV International Conference on LNG took place March 20 to 24, 2004 in Qatar. Sakhalin Oblast Governor Ivan Malakhov was among the conference participants. After arriving back in Sakhalin, Governor Malakhov held a press conference to share his impressions and viewpoint.



By www.adm.sakhalin.ru

The Governor met with representatives of the companies that signed contracts for LNG purchase (such as Toho Gas, Tokyo Electric, Tokyo Gas), with potential customers, such as Kogas, Sinopec, Shinerger, and a number of Japanese companies interested in long-term gas supply contracts. Governor Malakhov mentioned that Sakhalin is the only LNG supplier in the Asia-Pacific region. It will take two days to deliver the LNG to Japan; two or three days to South Korea; and three days to China. It currently takes 25 days to deliver LNG from Qatar to Japan. The quality of LNG produced on Sakhalin will meet international standards. The opportunity of delivery to the US market is currently being reviewed.

At the Conference, the governor met with representatives of Royal Dutch Shell, Mitsui, and Mitsubishi. A number of issues were addressed with the companies' representatives including an increase of Russian content, especially concerning Sakhalin companies; salaries for local personnel; terms of projects' implementation; and environmental issues. Discussing the implementation of the upcoming shelf projects, the Governor noted that it would be beneficial for the Oblast if they connect to SEIC's pipeline because of LNG's higher profitability when

compared to natural gas. Sakhalin Oblast will get increased revenue for gas transportation throughout the island. The issue of the Sakhalin region's gasification is being reviewed at the moment before making a decision in order to understand the internal and external market needs. (Source – SOGN, April 04, www.rfeoilgas.com, from Gubernskije Vedomosti Newspaper, April 02)

** Rosneft plans to “fight” for Sakhalin-3.*

The President of Rosneft Mr. Bogdanchikov announced to the press that his company is planning to participate in future tender for Sakhalin-3, soon to be announced by the Ministry of Natural Resources. Sakhalin-3 consists of three large blocks. Forecasted recoverable resources of Vostochno-Odoptinski block make up 70 million metric tons of oil and 30 billion cubic meters of gas, of Ayashski block – 97 million metric tons and 37 billion cubic meters, of Kirinski block – 453 million metric tons and 53 billion cubic meters, correspondingly. At the moment two variants for the future Sakhalin-3 tender exist – the traditional license distribution for the geological survey and the exploration license, following the field strike; another variant that is possible in case if the State Duma approves the Russian Federation “The Earth Bowels” Law, which is already discussed in its draft. According to the latter, there should be a case when the Government can issue the so-called “open-ended licenses” for the geo survey and the following field development. According to Mr. Bogdanchikov, this variant is viewed by Rosneft as a perspective one. He also stated that the development of Sakhalin-3 is viable not only on PSA conditions, but on the conditions of the common national tax regime as well. (Source – Yuzhno-Sakhalinsk Newspaper, March 11, 2004)

** SEIC signed fourth agreement on LNG sales with Toho Gas.*

The companies signed a contract for LNG supplies for the period of about 23 years, up to 0.3 million metric tons per year. The deal with Toho Gas, one of the largest gas distributors in Japan, is the fourth deal of such kind concluded by Sakhalin Energy. Consolidated volume of pre-sold LNG is 3.1 million metric tons per annum for the period of more than 20 years. More details can be obtained at the press-release http://www.sakhalinenergy.com/news/nws_releases_20040312.pdf (Source – Vostok-Media, March 15, 2004)



New office of SEIC in Yuzhno-Sakhalinsk

** Rosneft and BP agreed on mutual development of Sakhalin-5.*

The two companies reached the agreement for the mutual development of Sakhalin-5. The vice-President of Rosneft, Mr. Sergey Alexseev noted that “it is important that the sides are ready to invest into the survey before permits for the industrial development of the block are obtained”. Estimating the total value of the project, he reported that it will make up approximately USD 3-3.5 billion, USD 150-170 of this amount will be allocated for the geological survey which is to take place approximately until 2008. (Source – RIA Nowosti, March 04, 2004)

** Oblast targets doubling of Sakhalin companies involved in construction projects (by www.rfeoilgas.com).*

Currently 720 construction companies are operating on Sakhalin. Of this, 58 are specializing in project work and 78 in production of construction materials, announced Valeriy Kordov, Chief Executive of Sakhalin Oblast Construction Department, at a presentation to a Canadian trade mission on March 17. Sakhalin companies do all kinds of construction work. Currently there is a peak in the number of large construction projects associated with the Sakhalin-1 and Sakhalin-2 projects. However, only 10% of Sakhalin's companies are participating in tenders for these projects. In 2003, 68 of Sakhalin's construction companies got contracts for a total of \$600,000. At the same time, over 50 companies from the mainland are working on the projects (70% of them are large Russian companies, 30% are JVs), for a total of \$3.2 billion.

According to V. Kordov, the Sakhalin Oblast Administration is interested in more Sakhalin construction companies getting contracts and sub-contracts for shelf projects. The Oblast Administration is taking some measures in this direction. The number of these companies is supposed to double during 2004. At the presentation, the largest Sakhalin companies were presented: OJSC Sakhalinmorneftemontazh, Sfera, Ltd., SakhalinNIPIMorneft (a subsidiary of Rosneft-Sakhalinmorneftegas), Transstroy-Sakhalin, and the project institute Sakhalingrazhdanproject. All of these companies are participating in shelf projects, as well as other construction projects in the Sakhalin Oblast (such as civil construction, churches, office buildings, hospitals, schools, and others). Some of the companies have joint ventures with foreign companies. (Source – SOGN, Mar 21, www.rfeoilgas.com, By TIA Ostrova, Sakh.com.news - March 18, 2004)

** Vyksunski Metallurgical Works manufactured its first pipes for Sakhalin-2 project.*

The plant, which is the member of Objedinennaya Metallurgicheskaya Kompaniya (OMK; United Metallurgical Company), shipped the first lot of pipes for SEIC's on-land pipeline which will connect the Piltun-Astokh field with the onshore processing complex. The pipes are 20 inches in diameter and have three-layer coating, complying with API 5L international standards and to SEIC's requirements. The pipes are unique for the Russian market and are manufactured for the first time. The process of manufacturing is being controlled by the international experts –

Moody International and Pipeteam. According to them, the test equine for pipes, installed at the plant, is one of the most up-to-date in the world. The first shipment of 2400 metric tons of pipes was sent to Sakhalin in February 2004. According to the contract, the plant is to ship 33 thousand metric tons of pipes of 24 inches diameter and about 10 thousand metric tons - of 20 inches diameter. (Source – Regnum Information Agency, March 16, 2004)

** The modern gantry arrived to the Sakhalin Zapadnyi Port (Kholmsk).*

On March 21st the new gantry arrived at Kholmsk. The crane was custom-made in Germany. Compared to the standard carrying capacity of 40 metric tons, the new one can handle as much as 60. The rail-tracked gantry will be used for handling of cargo on ships and for work at the mooring. This is the only crane of such type on Sakhalin – it will allow to increase cargo turnover at the port. (Source - TIA Ostrova Information Agency, March 22, 2004).



Zapadnyi Port. Picture courtesy of Starstoi.

** PRISCO signs another contract with Exxon Neftegas Limited.*

PRISCO, together with the Norwegian shipping company Rieber Shipping AS concluded the long-term contract for the ice-class tag boat services for Sakhalin-1. Rieber Shipping AS press-release (February 18th, 2004) states: “The contract has a duration of 15 years plus options from commencement September 2006. Simultaneously a contract has been entered into with Aker Langsten AS for construction of the ship, which will have a length of 71 meter and engine power of about 11.000 kw. The ship will support tanker and icebreaking operations at the oil-terminal DeKastri at Sakhalin, in the north-eastern region of Russia. The ship will be built to highest DnV class and be equipped for oil recovery and firefighting. The contract award reflects the companys expertise in design and operation of ice-classed vessels, and is done at acceptable commercial terms.” (<http://www.riber-shipping.no/>)

Visits and Delegations

** The representatives of the Japanese Ministry for Economics visited Sakhalin.*

The negotiations were held between the Ministry representatives and the Committee for Economics of Sakhalin region. The Committee for Economics presented the most perspective branches of Sakhalin industry, which can be potentially interested for foreign investors. Fishing industry needs more fish farms; another perspective trend in fishing might be the artificial cultivation of sea-urchin, trepang, scallop. Another priority trend, as viewed by the Administration, is development of residential housing construction. It was stated that this sphere can be interested for both sides. According to the specialists, modular housing is the most effective technology for Sakhalin; if developed, it can also benefit the development of local construction materials industry.

Sakhalin region is considering the possibilities to use its share of shelf-extracted oil and gas – to use in the local energy complex, process the hydrocarbons in the region or export. The Japanese side was offered to consider these opportunities for the future cooperation. Japan may be also interested in importing Sakhalin coal. (Source - [IA REGNUM](#), March 12, 2004)



Picture by Summitcommunications.com

** The delegations of two Japanese energy-related companies visited Sakhalin.*

The representatives of Tokyo Gas and Tokyo Electric, delegations headed by the Vice-Presidents of these companies, met with the Governor of Sakhalin region Mr. Ivan Malakhov and the Director of the Oil and Gas Department Ms. Galina Pavlova (*photo*). According to Ms. Pavlova, the officials visited Sakhalin for the first time. In 2003, these companies signed the agreements to purchase Sakhalin liquefied gas, totaling 2.3 million metric tons over more than 20 years period. Another purpose of the visit was to get acquainted with

the new Governor of Sakhalin. The delegation expressed gratitude for continuous close cooperation between the local Administration and the Japanese energy sector companies. (Source – *Regions.Ru*; March 11, 2004)

** Canadian Trade mission visited Yuzhno-Sakhalinsk.*

Representatives of 21 Canadian companies were discussing the possibilities of participation in oil and gas projects. The delegation, headed by the Ambassador of Canada in Russia, met with the Governor Malakhov. The Governor noted that in order to achieve effective participation, Canadian companies have to establish joint ventures with Russian partners. As an example Mr. Malakhov pointed to the experience of the Australian trade mission which visited Sakhalin twice during the past year. As a result, the Australian JV's were awarded contracts for USD 20 million. (Source – *Ria Novosti*, March 15, 2004)

** Canadian colleges plan on mutual training of specialists for oil and gas industry on Sakhalin.*

The Canadian trade Mission finished its visit to Sakhalin on March 17th. As was stated by the Canadian Honorary Consul in Vladivostok Ms. Tatyana Demenjuk, Sakhalin draws more and more attention of Canadian companies and the March trade mission is possibly not the last one to be held. SEIC, ExxonNeftegas and BP held a seminar for the Trade Mission, stating that the major part of work on the projects is already distributed but there still is room for Canadians to take part in construction materials and equipment delivery. The Regional Administration held a meeting with Sakhalin construction companies. The representatives of Canadian colleges visited local educational institutions to study the possibilities for mutual training of oil and gas and environmental specialists. The Sakhalin Administration agreed that it will provide the set of business proposals to the Canadian Consulate in exchange for the similar package from the

Canadian side. At the moment, there are about 10 Canadian companies who work on Sakhalin oil and gas servicing market. (*Source – TIA Ostrova Agency, March 11, 2004*)

Tourism and Recreation

** Sakhalin Taimen' Fishing Club initiates organization of sports fishing tourism and licensed fishing on Sakhalin.*

The regional organization Sakhalinskij Taimen' prepared a program of development and announced that tourism and licensed fishing can be a good income item for the local budgets. The letter was sent to the major players on the local fishing market, signed by more than 100 fishermen. Another project, initiated by Sakhalinsky Taimen' is an offer to start the biological wastes processing into pet food on Sakhalin. (*Source – TIA Ostrova Information Agency, March 26, 2004*)

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